

**Date and Time:** Friday, August 18, 2023 12:50:00PM PDT

**Job Number:** 203880501

## Document (1)

1. [\*The ugly carbon-tax truth\*](#)

**Client/Matter:** -None-

**Search Terms:** "climate warrior"

**Search Type:** Natural Language

**Narrowed by:**

**Content Type**  
News

**Narrowed by**

Language: English; Sources: National Post (f/k/a The Financial Post)(Canada); All Content Types: News; Timeline: Jan 01, 2017 to May 31, 2023; Geography by Document: North America; Geography by Document: Canada

## *The ugly carbon-tax truth*

National Post (f/k/a The Financial Post) (Canada)

July 27, 2017 Thursday

All but Toronto Edition

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**Section:** FP COMMENT; Pg. FP9

**Length:** 766 words

**Byline:** Kenneth Green, National Post

### **Body**

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At the G20 summit in Hamburg this month, Prime Minister Justin Trudeau took a leading role in promoting a climate change agreement that would reaffirm the Paris climate targets. Nineteen members of the G20 signed on, with the United States declining.

Several Canadian provinces have implemented climate change action plans containing several key components: subsidies to renewable power; household, business and vehicle efficiency programs; and, of course, a carbon pricing program. More recently, after adopting the Paris climate commitment, Ottawa announced it would establish a "backstop" price for greenhouse gas emissions starting at \$10 per tonne in 2018, rising to \$50 per tonne in 2022. Provinces that don't adopt equivalent provincial policies will have that new federal tax imposed on them.

However, a recent poll by the Angus Reid Institute suggests that the more people learn about carbon pricing the less enamoured they are of such schemes, particularly at the federal level. According to the poll, at least half the population (outside Quebec) oppose the federal tax plan, and a large swath of the public in Alberta (68 per cent) and Saskatchewan (71 per cent) want their leaders to oppose the federal plan.

And 55 per cent of Canadians don't think Canada should move forward with its carbon-pricing plan if it could impact Canadian competitiveness.

Canadians are right to be skeptical. As the Fraser Institute showed in a recent study, provinces are implementing carbon pricing in ways that fundamentally violate the three key principles of efficient and economically benign carbon pricing, which are: 1) the tax must displace existing regulations, not be atop them; 2) The tax must be fully rebated to the public as reductions in other distortionary taxes such as income and corporate taxes; and 3) the tax revenues must not be used to distort energy systems by supporting one form of production over another. No province in Canada (including British Columbia) meets all three of these principles. Most don't meet any.

Consider Ontario's cap-and-trade system instituted by Premier Kathleen Wynne, which her government estimated would bring in \$2 billion in revenue per year. According to the Ontario auditor general, out of the \$8 billion to be collected in four years, \$1.32 billion is earmarked to help with residential and business electricity bills. The rest will be spent on the usual governmental preferences: transit, subsidies to renewable energy and dubious efficiency programs.

Alberta's new carbon tax of \$30 per tonne is expected to generate almost \$5.4 billion from 2017 to 2020. Part of that (28 per cent) will be given to low-and middle-income Albertans, ostensibly to ease the pain of higher power bills, and the indirect impact of driving up costs of other goods and services in Alberta. The rest will be spent on government pet projects.

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And then there's Quebec, which has a cap-and-trade system that has brought in \$330 million as of 2016, but is expected to bring in \$2.5 billion by 2020 (and perhaps more, if Quebec matches the escalating national price floor established by Ottawa). Where does the revenue go? Free permits are given to emitters while the remaining revenue will be spent on "programs to fight climate change."

Ok, but what about B.C.?

Another study by the Fraser Institute verified that in the B.C. carbon tax's early years, it was truly revenue neutral. Personal and corporate taxes were reduced and additional tax reductions were introduced to ensure revenue neutrality. But by 2014/2015, only five years into the tax system, the government had taken to shaky bookkeeping to preserve the appearance, but not the reality, of revenue neutrality. And from year two of the tax, various tax credits diverted revenues away from general-public tax relief.

As for replacing regulations and not tinkering with the energy economy, not only have provinces with climate action plans and carbon pricing failed to do so, they've actually increased both regulation and tinkering with their energy systems.

Prime Minister Trudeau may have doubled down on his Paris pledge, and postured as the anti-Trumpian climate warrior at the G20. But there's growing evidence that Canadians don't like carbon taxes and are realizing they're not the "efficient" and "economically benign" eco-tax sold by politicians. Instead, carbon taxes are quickly turned into funding mechanisms for expanded government meddling in Canada's energy economy.

Kenneth Green is senior director, natural resource policy at the Fraser Institute. !@COPYRIGHT=© 2017 Postmedia Network Inc. All rights reserved.

## Classification

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**Language:** ENGLISH

**Document-Type:** Column

**Publication-Type:** Newspaper

**Subject:** TAXES & TAXATION (91%); AGREEMENTS (90%); CARBON TAX (90%); CLIMATE ACTION (90%); CLIMATE CHANGE (90%); CLIMATE CHANGE REGULATION & POLICY (90%); HEADS OF STATE & GOVERNMENT (90%); PRICE MANAGEMENT (90%); PRICES (90%); US FEDERAL GOVERNMENT (90%); PRIME MINISTERS (89%); PRODUCT PRICING (89%); EMISSIONS (78%); ENVIRONMENTAL TREATIES & AGREEMENTS (78%); ENERGY PRICES (76%); MIDDLE INCOME PERSONS (76%); RENEWABLE ENERGY INDUSTRY (76%); POLLS & SURVEYS (75%); GREENHOUSE GASES (73%); GOVERNMENT CONTROLLERS & AUDITORS (72%); summit,hamburg,month,prime,minister,justin (%)

**Industry:** CARBON TAX (90%); PRICE MANAGEMENT (90%); ENERGY & UTILITIES (89%); PRODUCT PRICING (89%); EMISSIONS (78%); ALTERNATIVE & RENEWABLE ENERGY (76%); ENERGY PRICES (76%); NATURAL GAS & ELECTRIC UTILITIES (76%); RENEWABLE ENERGY INDUSTRY (76%); GOVERNMENT CONTROLLERS & AUDITORS (72%); ACCOUNTING (69%)

**Person:** JUSTIN TRUDEAU (79%)

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**Geographic:** OTTAWA, ON, CANADA (73%); ALBERTA, CANADA (90%); ONTARIO, CANADA (88%); SASKATCHEWAN, CANADA (79%); QUEBEC, CANADA (78%); BRITISH COLUMBIA, CANADA (58%); CANADA (98%); UNITED STATES (79%); GERMANY (78%)

**Load-Date:** July 27, 2017

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